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RUEHUL/AMEMBASSY SEOUL 8991  
RUEHGP/AMEMBASSY SINGAPORE 7044  
RUEHKO/AMEMBASSY TOKYO 9191  
RUEHML/AMEMBASSY MANILA 0181  
RUEHJA/AMEMBASSY JAKARTA 4135  
RUEHKL/AMEMBASSY KUALA LUMPUR 3819  
RUEHHI/AMEMBASSY HANOI 3394  
RUEHBY/AMEMBASSY CANBERRA 4631  
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RUEHHK/AMCONSUL HONG KONG 8690  
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STATE PLEASE PASS USTR  
STATE FOR EAP/RSP/TC, EAP/EP  
USTR FOR KATZ AND STRATFORD  
USDOC FOR 3132/USFCS/OIO/EAP  
TREASURY FOR OASIA/TTYANG AND HAARSAGER  
TREASURY ALSO PASS TO FEDERAL RESERVE/BOARD OF  
GOVERNORS, SAN FRANCISCO FRB/TERESA CURRAN, AND NEW YORK FRB MARI  
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SUBJECT: Taipei Economic Brief for October 2007

¶1. Summary. This cable summarizes selected October 2007 economic events in Taiwan. Taiwan enjoyed economic expansion, increased investment, but faced inflationary pressure...Export orders moving to new high in 2007... Taiwan's semiconductor sector passes U.S. in production capacity...Non-electronics industries also expand...Big money for Biotech and WiMax...Two Taiwan insurance firms to set up subsidiaries in China...Backdoor to Taiwan opens for China's largest bank...Tighter criteria will push financial holding companies to merge...More, and better educated, women in the workforce...Hsinchu exports booming...US high-tech firm sets up Taiwan base for Greater China market.... END SUMMARY.

Statistics - Expansion, Inflation, Investment Accelerate

¶2. In the third quarter (Q3), increased domestic and external demand stimulated Taiwan's economy to expand, while inflationary pressure continued to build. Y-o-y private consumption growth in Q3 accelerated to nearly 4% compared to 0.4% a year ago. Meanwhile, y-o-y export growth rose into double digits. Manufacturing growth in Q3 reported a three-and-a-half-year high of 11.4%. To meet growing demand, the private sector investment increased to expand production capacity, mainly in the semiconductor and flat panel industries. Approved foreign direct investment growth accelerated dramatically, increasing from 87% y-o-y in Q2 to 150% in Q3. The unemployment rate in Q3 inched up from 3.8% in Q1 to 4.0% which is still the lowest Q3 unemployment figure for the past seven years. The consumer price index (CPI) in Q3 rose 1.5% from a year ago. Higher crude oil import costs and typhoons, which seriously disrupted produce supply, drove up the CPI growth to a two-year high of 3.1% in September and even higher in October.

Export Orders Will Hit New High in 2007

¶3. The Ministry of Economic Affairs (MOEA) projects that export

orders in 2007 will set a new high of US\$340 billion. Export orders in September 2007 grew 16% year-on-year to a new high of US\$30.9 billion. With strong demand for notebook computers and other OEM manufactures, export orders for IT and telecommunications products in September 2007 increased by 28.5% to US\$6.8 billion. Export orders for consumer electronics grew 17.6% to US\$7.5 billion. These two categories accounted for 46% of total export orders. Hong Kong and China were Taiwan's top source of export orders, with orders in September totaling US\$8.5 billion. Orders from the United States followed at US\$7.6 billion. Export orders from January to September 2007 totaled US\$250.7 billion, up 15% over the same period last year.

#### No. 2 in Semiconductor Production Capacity

¶4. Taiwan will soon surpass the United States as the world's Number 2 in semiconductor production capacity. The Industrial Technology Research Institute (ITRI) reported that Taiwan will account for 18% of the world's total semiconductor production capacity in 2007, up from 12% in 2000. Japan still ranks first, although its share is expected to decline to 24%. The U.S. should come in at 17%. Twelve-inch silicon wafer plants constitute 68% of Taiwan's total production capacity. This ratio will increase as 8-inch silicon wafer plants are retired from DRUM production.

#### Non-electronic Industries also growing

¶5. The Council for Economic Planning and Development (CEPD) reported that Taiwan's non-electronic industries expanded substantially in 2001-2006 after industrial relocation caused these industries to shrink during 1993-2000. Technology advances pushed up the annual value added per worker of the non-electronic industries in 2006 to NT\$5.4 million (US\$166,150), more than double

TAIPEI 00002430 002 OF 003

the NT\$2.6 million in 1993. The annual production value of the non-electronic industries in 2006 was NT\$8.63 trillion (US\$265 billion), nearly double the figure in 1993.

#### Big Money for Biotech

¶6. Starting in the 1980s Taiwan has tried to develop a local biotech industry through the establishment of biotechnology research and development organizations. Taiwan has 95 business incubation centers, 48 of which are biotech incubation centers. The number of biotech companies spun off from these biotech incubation centers shot up from 117 in 2002 to 268 in 2006, including 34 listed on the Taiwan Stock Exchange and 17 on the over-the-counter (OTC) market. Seven of the eight planned biotech industrial parks have opened. Taiwan authorities invested NT\$21.5 billion (US\$661.5 million) in the biotechnology industry in 2006, with R&D accounting for 60% of this figure. Private biotech investment in 2006 amounted to NT\$21 billion (US\$646 million), mainly in health foods, pharmaceuticals, biomedicine, and medical devices. The biotech industry has seen an average revenue growth of 12% over the past five years as biotech industry clusters started emerging.

#### Big Money for WiMax

¶7. The Ministry of Economic Affairs (MOEA) signed a memorandum of understanding (MOU) with five multinational telecom corporations to help Taiwan's six licensed WiMax (worldwide interoperability for microwave access) operators build infrastructure. Alcatel-Lucent, Motorola, Sprint Nextel, Nokia-Siemens Networks, and Starent Networks have committed to supply Taiwan the required equipment (e.g., core network and base stations) and transfer technologies to local firms for production of consumer products. Under the arrangement, Taiwan will serve as a testing ground for new WiMax products and applications while the island has a better chance to obtain a leading position in global WiMax chains. Economic Minister Steve Chen estimated that Taiwan's cumulative WiMax investment will reach US\$664 million, second only to that of the United States. MOEA estimates the annual production value of Taiwan's WiMax-related products will be NT\$140 billion (US\$4.3 billion) by 2012.

Two Taiwan Firms to Set up Insurance Firms in China

¶ 8. In October, the PRC approved two Taiwan insurance groups to set up subsidiaries. Taiwan's Cathay Financial Holding (CFH) will organize a non-life insurance subsidiary in Shanghai, which will be Taiwan's first 100%-owned insurance subsidiary in China. The China-based subsidiary will have a capital of US\$29 million. Taiwan's Shin Kong Financial Holding will enter into a life insurance joint venture with the PRC's Hainan Airlines in Beijing. Each party will contribute 50% of the joint venture capital of RMB800 million. In 2005, Cathay Life Insurance set up Taiwan's first insurance joint venture named Cathay Life Insurance (Shanghai) with Shanghai-based China Eastern Airlines. Taiwan insurance firms already operate 14 representative offices in China, including seven (five in Beijing and one each in Chengdu and Shanghai) by life insurance firms and another seven (five in Shanghai and two in Beijing) by non-life insurance firms. Taiwan insurance firms do not operate any branches in China.

#### A PRC Bank - In Taiwan?

¶ 9. The PRC's Industrial and Commercial Bank of China (ICBC) announced it will acquire 20% of equity in Standard Bank of South Africa for US\$5.6 billion. ICBC will become the largest shareholder of Standard Bank which has a branch in Taiwan that was set up 20 years ago. The branch ranks 21st in terms of net worth among 32 foreign banks in Taiwan.

TAIPEI 00002430 003 OF 003

#### Higher Criteria for Financial Holding Companies

¶ 10. On October 12, 2007, Taiwan's Financial Supervisory Commission (FSC) amended the "Financial Holding Company Establishment Criteria." According to the new criteria, the capital adequacy ratio for a FHC will remain unchanged at 100%. The ratios for FHC subsidiaries, however, will substantially increase, up from 8% to 10% for a bank, up from 150% to 200% for a securities firm, and up from 200% to 300% for an insurance company. The new criteria call for the minimum capital to triple, from NT\$20 billion to NT\$60 billion (US\$1.8 billion). The new minimum asset requirements will more than double, up from NT\$300 billion to NT\$750 billion (US\$22.7 billion). The new criteria restrict FHCs from investing in non-financial sectors. The FSC also does not permit an FHC from serving as a holding company of another FHC. Apparently, the higher criteria are designed to force half of the smaller existent FHCs to merge.

#### Labor participation rate highest in 10 years

¶ 11. Taiwan's labor participation rate in the first eight months of this year averaged 58.24%, the highest for the ten-month period over the past 10 years. The main reason is the increasing numbers of women entering the workforce as their level of education rises. In 1980, 26% of mothers with children under the age of 6 held employment. In 2006, this figure more than doubled to 56%. Taiwan's employment population in August was 10,795,000, up 41,000 persons over July or up 191,000 persons over a year ago.

#### Hsinchu Science Park Sets Export Record

¶ 12. August exports of Hsinchu Science Park (HSP) manufacturers hit a new monthly high of NT\$62.07 billion (US\$1.9 billion), which is an increase of 24% compared to last year. Integrated circuits (IC) and optoelectronics comprised over 87% of the August exports. Exports from the HSP in the first eight months of 2007 increased 11% year-on-year to NT\$410.87 billion (US\$12.6 billion). Optoelectronics exports (mainly flat panels) shot up 83% to NT\$143.25 billion (US\$4.4 billion), while integrated circuits (IC) exports declined 7% to NT\$208.42 billion (US\$6.4 billion). During the eight-month period, 76% of the HSP's exports went to Asian countries, 8.7% to Europe, 8.4% to North America, and 5.9% to Central America.

#### Spansion Teams up with Taiwan companies

¶ 13. U.S.-based Spansion, the world's largest flash memory solutions

provider, is expanding its technical and business relations with two Taiwan companies in a bid to take on the Greater China market. Spansion and Taiwan Semiconductor Manufacturing Company (TSMC) have been jointly developing and upgrading manufacturing process technologies. Spansion recently placed larger orders for digital television chips with TSMC, which is also handling a third of Spansion's orders for mobile phone chips. Spansion, which was originally a joint venture between AMD and Fujitsu, is also teaming up with Mediatek to provide design solutions for handsets, digital TVs and DVD players. Meanwhile, Mediatek, having the backing of Spansion's complete support for flash memory platforms, will effectively consolidate its top position in the Mainland China handset chip market.

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